



25 June 2010

Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

By email: electricity@qca.org.au

Dear Sir/Madam

Review of Electricity Retailer and Distributor Credit Support Arrangements

AGL Energy Ltd (**AGL**)¹ welcomes the opportunity to comment on the Queensland Competition Authority's (**QCA**) Review of Electricity Retailer and Distributor Credit Support Arrangements (the **Review**).

AGL notes that the Review was initiated as a result of Queensland Government concern that the current credit support arrangements may be inefficient and may present barriers to entry to the Queensland electricity market. AGL does not share this concern and the Consultation Notice provides no compelling need to support a change at this time.

It is the timing of the Review which is of most concern to AGL given the development of the National Energy Customer Framework (**NECF**) credit support regime², which will be consulted on further soon. Interestingly, the issue of whether the QCA should take account of the proposed national framework for credit support is the final question posed in the Consultation Notice. In AGL's view, it begs the fundamental question – whether any changes should be made to the current arrangements ahead of the NECF unless there is demonstrated market failure.

AGL is not convinced that the current credit support arrangements in Queensland are so problematic that they require amendment before the conclusion of the NECF process. Without demonstrable market failure with respect to Queensland's credit support arrangements, surely there is little benefit in changing this regime ahead of the NECF, given the primary rationale of the NECF is the attainment of national consistency. Changing the Queensland arrangements now, when further changes are likely to be required on implementation of the NECF, would be inefficient and lead to regulatory uncertainty.

AGL notes that we have responded in similar terms to the Essential Services Commission of South Australia (**ESCOSA**), which is also undertaking a review of South Australia's credit support arrangements. We note that Queensland's existing credit support arrangements mirror those in South Australia and these separate reviews have the potential to create regulatory uncertainty, even without the overarching issue of the NECF.

All indications are that the enabling legislation for the national framework will be introduced in the Spring session of the South Australian Parliament. Notwithstanding that there is yet any clear timetable as to transitional arrangements, it seems highly inefficient

¹ For the purpose of this submission, AGL Energy Ltd represents the views of AGL Sales (Queensland Electricity) Pty Ltd and Powerdirect Pty Ltd.

² AGL has reviewed the credit support regime outlined in the Second Exposure Draft of the NECF and did not take issue with the credit support regime proposed.



to have both Queensland and South Australia contemplating changes to existing credit support arrangements at this time. It could potentially result in the perverse outcome whereby two jurisdictions that are currently consistent, end up being inconsistent, until such time as national arrangements are introduced.

In the event that the QCA decides to proceed with its own review at this time, AGL submits that credit support arrangements should:

- be as consistent as possible with proposed national arrangements;
- include an exemption from the payment of credit support for companies with an investment grade credit rating (or with a parent company with an investment grade credit rating) – the reason being that companies with an investment grade credit rating represent a low default risk. At the very least, there should be the flexibility to align the costs of credit support with the relative risk associated with an individual retailer;
- maintain a competitively neutral effect; and
- not compromise the integrity of the market.

Should you wish to discuss any of the above comments further please contact Anna Stewart, Manager Regulatory Policy and Strategy on 03 8633 6830.

Yours sincerely,



Alex Cruickshank
Head Energy Regulation